



# Watch Your Assets

***A Project of Texans for Public Justice \* [www.tpj.org](http://www.tpj.org)***

**UPDATED:** The Governor’s Office released more TEF amendments after TPJ published this report. They include *first* amendments for Health Management Systems and Santana Textiles, as well as *second* amendments for Rockwell Collins and Vought Aircraft. The “TEF Amendments” and “Recently Amended Contracts” sections below now reflect this new information.

## Con Job:

### Most Enterprise Fund Grantees Failed to Deliver in 2010

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## Introduction

Texas Governor Rick Perry lobbied lawmakers in 2003 to create the Texas Enterprise Fund (TEF). Overseen by the governor, lieutenant governor and House speaker, TEF doles out taxpayer money to private companies to create jobs in Texas. An August 2011 list of TEF projects posted online by the Governor's Office suggests that the program awarded \$440 million and created 59,157 jobs. Perry claimed in an October Republican presidential debate that TEF created 54,600 jobs and "those people that have jobs today in the State of Texas, they are absolutely happy that we've got a program like that."<sup>1</sup>

Unfortunately there are nowhere near 54,600 Texans currently collecting a TEF paycheck. While it's true that TEF has awarded \$440 million to create 59,157 jobs, it's also true that the deadline for delivering many of those jobs is years away and that most TEF awardees have failed to deliver on their job promises in recent years. When the *Austin American-Statesman* pressed the governor's office on TEF job claims in October, Perry spokesperson Allison Castle said that as of 2010 TEF had delivered 30,700 jobs—44 percent fewer than her boss had just claimed on national television.<sup>2</sup> Putting aside five TEF projects that rely on indefensible job claims and another TEF project that appears to be undergoing a TEF job audit,<sup>3</sup> this report finds evidence that TEF created 22,349 jobs by the end of 2010.

This report reviews the 65 TEF projects that had promised to create jobs by 2010 in their *original state contracts*.<sup>4</sup> TEF awarded \$350 million to these 65 grant recipients to deliver a total of 20,685 jobs in 2010 (the same grantees promised to *eventually* deliver 54,360 new jobs). To assess these projects, TPJ used the Texas Public Information Act to get copies of 2010 compliance reports that TEF grantees filed with the Governor's Office (TPJ analyzed 2009 compliance reports in a previous [study](#)). This allowed researchers to compare the number of new jobs that TEF companies actually reported creating by the end of 2010 to the 2010 job targets prescribed in their original TEF contracts.

### Most TEF Projects Facing 2010 Jobs Targets Defaulted on Jobs, Made Fraudulent Job Claims or Have Been Aborted Altogether

Compliance Status	2009 Projects	2009 Percentage	2010 Projects	2010 Percentage
Non-Performing	13	26%	24	37%
Performing	11	22%	17	26%
Terminated	6	12%	11	17%
Troubled	4	8%	7	11%
Fraud	0	0%	5	8%
Weak	2	4%	1	2%
*Amended	14	28%	0	0%
<b>TOTALS:</b>	<b>50</b>	<b>100%</b>	<b>65</b>	<b>100%</b>

\*TPJ phased out the "Amended" category, which has become too widespread.

The results are as discouraging as a "jobless recovery." Most TEF projects with 2010 job targets have been terminated, make fraudulent job claims or failed to deliver on their 2010 job promises. This report classifies the 65 TEF projects into six categories:

- 24 **non-performing** projects (37 percent) failed to deliver on their original 2010 job promises;
- 17 **performing** projects (26 percent) complied with their 2010 job commitments;
- The Governor's office **terminated** 11 failed projects (17 percent) prematurely.
- 7 projects are **troubled** (11 percent), usually because they defaulted on 2010 job pledges but covered the shortfall with job credits earned by exceeding their job targets in past years;

- Five **fraud** projects (8 percent) deceptively claim that they created more jobs than they actually did (many of TEF’s largest grants are frauds); and
- One **weak** project claims “new” jobs that had hiring dates *predating* its TEF contract.

This report tweaks the classification system that TPJ previously used to classify TEF projects. TPJ previously classified some projects as “amended.” With the Governor’s Office now having amended 18 of the 65 projects analyzed here (28 percent), it’s time to treat amended contracts like any other. That means that they are judged on the extent to which they comply with their original job promises. This report also introduces the “fraud” category for projects that make indefensible job claims year after year (see below). Putting aside TEF’s five fraud projects, as well as Samsung’s project, which appears to be undergoing a TEF job audit, TEF grantees reported a total of 22,349 jobs in 2010. This is less than half of the 54,600 jobs that Governor Perry recently claimed that TEF has created. (A separate TPJ [study](#) recently found that TEF grant recipients contributed almost \$7 million to Perry's campaign and the Perry-affiliated Republican Governors Association).

### TEF Amendments

TEF amendments typically reduce the number of jobs that a grantee is required to deliver or they postpone job deadlines. The accompanying table shows how these amendments undercut the job promises of 18 TEF projects. The amendments slashed the participating grantees’ total 2010 job commitments by 43 percent; they cut their *lifetime* job commitments by 26 percent.

#### TEF Amendments Slashed 2010 Job Targets by 43 Percent

TEF Amendments	Original '10 Job Target	Amended '10 Job Target	Original Total Job Target	Amended Total Job Target
Albany Engr Composites	156	7	337	137
Allied Production Solutions	200	145	200	200
Authentix	81	57	120	120
Fidelity Global Brokerage	1,535	190	1,535	850
Health Mgmt. Systems	20	20	350	350
*HelioVolt Corp.	158	48	158	158
Huntsman	326	285	326	285
KLN Steel Products	240	56	300	156
Lee Container	105	50	105	105
Lockheed Martin	800	550	800	550
Martifer Energia	147	147	225	225
Motiva	300	150	300	300
Rackspace	2,100	475	4,000	1,225
*Rockwell Collins	334	105	334	105
Santana Textiles	359	13	800	800
TX Energy Center	1,500	800	1,500	800
TX Instit. Genomic Medicine	894	894	5,000	5,000
*Vought Aircraft	3,000	3,000	3,000	3,000
<b>TOTALS:</b>	<b>12,255</b>	<b>6,992</b>	<b>19,390</b>	<b>14,366</b>

\*The Governor’s Office negotiated *two* amendments to this agreement.

**Notes:** See this footnote on the Health Management, Martifer, TX Institute and Vought amendments.<sup>5</sup>

## Non-Performing Projects (37 percent)

TEF awarded \$84 million in taxpayer money to 24 projects (37 percent) that failed to deliver on their 2010 job promises. These non-performing projects collectively failed to deliver a total of 5,044 jobs that they had promised to deliver by 2010.

### Non-Performing Projects in 2010

Company	Location	2010 Job Target	2010 Job Count	2010 Job Deficit	TEF Grant	Total Jobs Target
*Allied Prod. Solutions	Gainesville	200	138	-62	\$800,000	200
*Authentix	Addison	81	29	-52	\$1,000,000	120
*Fidelity Global Brokerage	Westlake	1535	177	-1,358	\$8,500,000	1,535
Green Star	Boerne	20	2	-18	\$350,000	118
Grifols, Inc.	San Marcos	15	10	-5	\$500,000	190
*HelioVolt Corp.	Austin	158	56	-102	\$1,000,000	158
Hilmar Cheese	Dalhart	252	241	-11	\$7,500,000	376
*Huntsman	Woodlands	326	286	-40	\$2,750,000	326
*KLN Steel Products	San Antonio	240	63	-177	\$900,000	300
*Lee Container	Nacogdoches	105	38	-67	\$300,000	105
LegalZoom.com, Inc.	Austin	68	61	-7	\$1,000,000	465
*Lockheed Martin	Houston	800	453	-347	\$5,480,000	800
Lorimer (Natura World)	Wichita Falls	75	22	-53	\$1,500,000	400
*Martifer Energia, S.A.	San Angelo	147	25	-122	\$945,000	225
*Motiva	Port Arthur	300	258	-42	\$2,000,000	300
Nationstar Mortgage	Lewisville	150	87	-63	\$560,000	400
*Rackspace	San Antonio	2100	972	-1,128	\$22,000,000	4,000
*Rockwell Collins	Richardson	334	118	-216	\$1,678,392	334
*Santana Textiles do Brasil	Edinburg	359	13	-346	\$1,650,000	800
Superior Essex Commun.	Brownwood	50	48	-2	\$250,000	50
Trace Engines	Midland	64	20	-44	\$456,000	114
Tyson Foods	Sherman	1600	1424	-176	\$7,000,000	1,600
US Bowling Congress	Arlington	160	132	-28	\$610,000	160
Washington Mutual	San Antonio	3600	3022	-578	\$15,000,000	4,200
<b>TOTALS:</b>		<b>12,739</b>	<b>7,695</b>	<b>-5,044</b>	<b>\$83,729,392</b>	<b>17,276</b>

\* TEF contract amended to lower job targets and/or postpone job-creation deadlines.

## Performing Projects (26 percent)

Seventeen TEF projects (26 percent) reported that they complied with their 2010 job promises. These performing projects received taxpayer grants totaling \$50 million. They surpassed their collective 2010 target of 5,057 jobs by an additional 2,388 jobs. Scott & White Memorial Hospital—in the rapidly expanding health care industry—accounted for more than half of this jobs surplus.

## Performing Projects in 2010

Company	Location	'10 Job Target	'10 Job Count	'10 Job Surplus	TEF Grant	Total Jobs Target
Associated Hygienic Prod.	Waco	115	198	83	\$520,000	115
Cardiovascular Systems	Pearland	16	16	0	\$600,000	100
Caterpillar (2009 deal)	Seguin	614	815	201	\$8,500,000	1,714
CITGO Petroleum	Houston/Corpus	700	788	88	\$5,000,000	820
Facebook, Inc.	Austin	25	73	48	\$1,400,000	200
Hanger Orthopedic Group	Austin	100	196	96	\$1,500,000	236
*Health Mgmt. Systems	Irving	50	70	20	\$1,600,000	350
Home Depot	Austin/N. Braun.	843	886	43	\$8,500,000	843
Kohl's Dept. Stores	San Antonio	25	41	16	\$750,000	150
Medtronic	San Antonio	403	488	85	\$6,000,000	1,384
Newly Weds Foods	Mt. Pleasant	115	117	2	\$450,000	115
Ruiz Foods	Denison	423	687	264	\$1,500,000	423
Scott & White Memorial	Temple	558	1,817	1,259	\$7,500,000	1,485
T-Mobile	Frisco	855	1,022	167	\$2,150,000	855
Virtual Computing Enviro.	Richardson	55	57	2	\$2,450,000	434
Vendor Resource Mgmt.	Carrollton	150	153	3	\$750,000	275
Zarges Alumin. Systems	Amarillo	10	19	9	\$400,000	100
<b>TOTALS:</b>		<b>5,057</b>	<b>7,443</b>	<b>2,388</b>	<b>\$49,570,000</b>	<b>9,599</b>

\* TEF contract amended to lower job targets and/or postpone job-creation deadlines.

## Terminated Projects (17 percent)

The Governor's Office prematurely terminated 11 failed TEF projects that received total awards of \$40 million in exchange for broken promises to create 11,680 jobs.

## Terminated Projects

Company	Location	TEF Grant	Promised Jobs
Albany Engineering Composites	Boerne	\$1,000,000	337
Alloy Polymers	Crockett	\$200,000	52
Countrywide Financial	Richardson	\$20,000,000	7,500
FlightSafety International	Irving	\$720,000	125
Gulfstream	Dallas	\$750,000	150
Hewlett-Packard	Austin/Houston	\$5,000,000	420
Latex Foam International	Wichita Falls	\$1,060,000	190
Maxim (2007)	Irving	\$5,000,000	1,000
McLane Advanced Technologies	Temple	\$1,000,000	225
Nationwide Mutual Insurance	San Antonio	\$2,500,000	550
Sino Swearingen Aircraft	San Antonio	\$2,500,000	1,131
<b>TOTALS:</b>		<b>\$39,730,000</b>	<b>11,680</b>

## Recovered Funds

Led by terminated contracts, the Governor's Office has recovered funds and imposed clawback penalties on 27 of the 65 projects analyzed here (42 percent). Recovered amounts vary widely. For some terminated contracts the Governor's Office recovered all dispersed funds plus interest. For the Texas Institute for Genomic Medicine project (discussed in the fraud section below) TEF recovered less than 1 percent of a \$50 million payout.

### TEF Recovered Funds from 27 Projects

TEF Recipient	2010 Classification	TEF Award	TEF Funds Dispersed	TEF Funds Recovered	% Dispersed Funds Recovered
*Albany Engr Composites	Terminated	\$1,000,000	\$300,000	\$230,557	77%
*Allied Production Solutions	Non-Performing	\$800,000	\$800,000	\$7,784	1%
Alloy Polymers	Terminated	\$200,000	\$100,000	\$53,848	54%
*Authentix	Non-Performing	\$1,000,000	\$750,000	\$111,412	15%
Countrywide Financial	Terminated	\$20,000,000	\$20,000,000	\$8,450,351	42%
Fidelity Global Brokerage	Non-Performing	\$8,500,000	\$8,500,000	\$4,484,068	53%
Green Star	Non-Performing	\$350,000	\$175,000	\$15,180	9%
Grifols, Inc.	Non-Performing	\$500,000	\$250,000	\$4,470	2%
Gulfstream	Terminated	\$750,000	\$375,000	\$379,949	101%
*HelioVolt Corp.	Non-performing	\$1,000,000	\$500,000	\$82,091	16%
Hewlett-Packard	Terminated	\$5,000,000	\$3,000,000	\$3,210,847	107%
Hilmar Cheese	Non-performing	\$7,500,000	\$7,500,000	\$977,977	13%
*Huntsman	Non-performing	\$2,750,000	\$2,750,000	\$106,811	4%
*KLN Steel Products	Non-performing	\$900,000	\$450,000	\$47,744	11%
*Lee Container	Non-performing	\$300,000	\$300,000	\$25,824	9%
LegalZoom.com, Inc.	Non-performing	\$1,000,000	\$500,000	\$4,655	1%
*Martifer Energia, S.A.	Non-performing	\$945,000	\$500,000	\$97,930	20%
Maxim Integ. Products ('07)	Terminated	\$5,000,000	\$2,000,000	\$2,107,149	105%
McLane Adv. Technologies	Terminated	\$1,000,000	\$500,000	\$522,374	104%
Nationwide Mutual Insurance	Terminated	\$2,500,000	\$1,200,000	\$1,209,219	101%
*Santana Textiles do Brasil	Non-performing	\$1,650,000	\$800,000	\$64,496	8%
Superior Essex Com.	Non-performing	\$250,000	\$250,000	\$2,247	1%
*TX Instit. for Genomic Med.	Fraud	\$50,000,000	\$50,000,000	\$16,905	<1%
Trace Engines	Non-performing	\$456,000	\$250,000	\$155,991	62%
Tyson Foods	Non-performing	\$7,000,000	\$7,000,000	\$154,851	2%
US Bowling Congress	Non-performing	\$610,000	\$305,000	\$56,980	19%
*Vought Aircraft	Fraud	\$35,000,000	\$35,000,000	\$2,665,000	8%
<b>TOTALS:</b>		<b>\$148,181,000</b>	<b>\$144,055,000</b>	<b>\$25,246,710</b>	<b>18%</b>

Recovered Funds as of August 31, 2011.

\* TEF contract amended to lower job targets and/or postpone job-creation deadlines.

## Troubled Projects (11 percent)

Seven projects that received TEF awards of \$22 million are “troubled.” Six of these projects failed to meet their 2010 job targets but covered the shortfalls with job credits that they racked up by exceeding their targets in past years.

### Troubled Projects

Company	Location	'10 Job Target	'10 Job Count	'10 Job Surplus	TEF Grant	Total Jobs Target
ADP	El Paso	1,028	932	-96	\$3,000,000	1,028
Comerica	Dallas	200	197	-3	\$3,500,000	200
JTEKT Auto. (Koyo)	Ennis	200	181	-19	\$333,000	200
Maxim (2004)	San Antonio	500	450	-50	\$1,500,000	500
Raytheon	McKinney	200	169	-31	\$1,000,000	200
Samsung	Austin	900	?	?	\$10,800,000	900
Torchmark	McKinney	500	395	-105	\$2,000,000	500
<b>TOTALS:</b>		<b>3,528</b>	<b>?</b>	<b>?</b>	<b>\$22,133,000</b>	<b>3,528</b>

TPJ also classified Samsung as “troubled” due to troubling questions about how many new jobs **Samsung** has created in recent years. TEF awarded \$10.8 million to Samsung in 2005 to build a new chip plant next to an existing one in Austin. Samsung promised to create 900 new jobs at the new plant by 2009 and retain 300 already existing jobs. TPJ’s September 2010 [Phantom Jobs](#) study mentioned that Samsung previously submitted “new” job numbers to TEF that included jobs at its old chip plant. That report also cited the Samsung spokesman who erroneously told the press that the company’s TEF contract covers hundreds of jobs created by Samsung contractors *and suppliers*. Recently released TEF documents suggest that the same month that *Phantom Jobs* was published the Governor’s Office asked Samsung to provide more documentation for its job claims covering 2008 and 2009. TEF still appeared to be auditing those past job claims when Samsung filed its compliance report covering 2010.

“We do regret the confusion caused by the inconsistent employment figures cited in our earlier filings,” Samsung General Counsel Catherine Morse wrote the Governor’s Office in January 2011.

“Unfortunately, we have not consistently construed or, for that matter, even completely understood the exact data required by the State to verify compliance with the headcount figures.” Samsung’s latest compliance reports suggest that it made a full-court press to boost its body count. Samsung submitted a grab-bag of employment memos from contractors and suppliers, some of which do not inspire confidence. “The following are the [four] employees that I believe worked at Samsung full time in 2009,” says a memo from Fluid Balance International, which works on clean-room climate controls, “but these figures may include work done on other projects as well.” As TEF struggled to verify Samsung’s previous job claims, the Governor’s Office did not appear to have signed off on Samsung’s 2010 job numbers. A Governor’s Office document summarizing 2010 job-compliance data contains a column labeled “2010 Jobs Reported.” For Samsung the Governor’s Office left this field blank.<sup>6</sup>

## Fraud Projects (8 percent)

The Governor’s Office awarded \$154 million to five fraud projects (8 percent) that make deceptive and indefensible job claims year after year. These projects allegedly are producing 12,152 jobs, or 22 percent of the jobs that Perry claims that TEF has created. These projects suggest that TEF thinks big when it comes to job-claim fraud. Four of the five fraud projects rank among the top six TEF grants ever made.

### Fraud Projects

Recipient	Location	'10 Job Target	'10 Job Count	'10 Job Surplus	TEF Grant	Grant Rank	Total Jobs Target
Ctr. Adv. Biomed.	Houston	2,126	2,656	530	\$25,000,000	#5	2,252
Sematech	Austin	400	?	?	\$40,000,000	#3	400
*TX Energy Center	Sugar Land	1,500	1,529	29	\$3,600,000	#23	1,500
*TX Instit. Genomic Med.	College Sta.	894	10	-884	\$50,000,000	#1 (tie)	5,000
Vought Aircraft	Dallas	3,000	551	-2,449	\$35,000,000	#4	3,000
<b>TOTALS:</b>		<b>7,920</b>	<b>4,746</b>	<b>-2,774</b>	<b>\$153,600,00</b>		<b>12,152</b>

\* TEF contract amended to lower job targets and/or postpone job-creation deadlines.

The University of Texas System landed a \$25 million TEF award in 2005 to create Houston’s **Center for Advanced Biomedical Imaging**. University of Texas Health Science Center (UTHSC) and MD Anderson Cancer Center spearheaded the Center, pledging to create 2,252 new jobs by 2011. By 2009 the UT entities already reported creating 4,780.51 jobs. Was it a jobs miracle or jobs fraud? UT’s TEF contract does not limit itself to reporting jobs at the TEF-funded imaging center. UT also counts a slew of other new UT Health Science Center and MD Anderson “jobs in support of research initiatives and clinical activity.” Therein lies the fraud. UT pretends that its TEF grant prompted it to hire all manner of plumbers, police, pharmacy technicians, a dean’s office communications specialist and a café cook—many of whom would have been hired even if TEF never existed. Although MD Anderson’s payroll has grown like cancer for years, UT attributes virtually all the job growth after 2005 to one \$25 million grant. “It would be almost impossible to obtain data concerning job creation and salaries from all of the contractors, subcontractors, vendors and related entities that created jobs due to work at the Research Park,” Dr. Kenneth Shine, UT’s executive vice chancellor for health affairs, explained in a 2009 letter confirming this expansive job-counting methodology. TEF and this flagship university instead embraced an indefensible method that pumps up Governor Perry’s job-creation claims and deceives taxpayers.

TEF awarded \$40 million to **Sematech** in 2004 to build a new chip facility in Austin. The deal required Sematech to maintain 400 preexisting jobs for seven years but did not mandate *any* job creation. The contract prohibited Sematech from negotiating with any other government to “establish any new significant facility outside of Texas.” Sematech then had such illicit relations with then-New York Governor Eliot Spitzer, who announced in 2007 that Sematech agreed to “locate its headquarters in Albany.” The Albany deal triggered a Governor’s Office debate over whether the state should recover taxpayer funds from Sematech. “There was an argument that we could have whacked them,” a source told the *Austin American-Statesman*. “We chose not to.”<sup>7</sup> Sematech also appears to have reneged on its promise to maintain 400 local jobs. In 2007 Sematech sold the fabrication plant that accounted for almost half of its Austin workers. The *Statesman* reported that Sematech then padded its numbers by continuing to count workers at the plant it no longer owned.<sup>8</sup> An internal 2009 Sematech report listed 131 employees in Albany and just 124 in Austin. Yet an August 2011 report on TEF’s website claims that this project created 4,000 jobs. TEF appears to have based this claim on Sematech’s contract, which claims that the deal “has the potential to generate more than 4,000 other indirect jobs through companies that have and will continue to locate near ISMT.” ISMT stands for International Sematech—now located in Albany, New York.



The non-profit **Texas Energy Center** landed a \$3.6 million TEF grant in 2004 for energy research in Tom DeLay’s hometown of Sugar Land. The Center hired former DeLay staffer Drew Maloney as a federal lobbyist the day it landed this contract.<sup>9</sup> Maloney got Texas congressmen to insert a rider in a 2005 energy bill to direct \$1.5 billion to the Center.<sup>10</sup> The Center was supposed to create 100 in-house jobs by 2005 and create 1,500 indirect jobs by 2009 at affiliated energy companies. A 2005 TEF amendment killed all direct-hire requirements. It also postponed the final deadline for indirect jobs until 2015, diluted the criteria for counting indirect jobs and let the Center aggregate part-time positions into “full-time equivalents.” Previously the center had to be “significantly responsible for creating” indirect-job claims. Now it could count jobs that it fostered through “efforts specifically targeted at attracting or creating *such positions* to Texas” [emphasis added]. Such weasel words invite wheedling. The Center lobbied Sugar Land in 2006 to give it credit for a Bechtel office relocating there. *Fort Bend Now* reported that a city official wrote back that the Bechtel jobs “will qualify with the state” TEF contract but added, “I do not believe it is either appropriate or honest to suggest that the Texas Energy Center was responsible for or played any significant part in the Bechtel project.”<sup>11</sup> A *New Republic* reporter searching for the Center in 2011 discovered that it just exists in the form of Fort Bend Economic Development Council President Jeff Wiley, who handles the Center’s paper work.<sup>12</sup> Asked why the Center took credit for 600 EMS Pipelines jobs, Wiley told *New Republic* that an EMS founder once worked at the Center. The Center’s latest compliance report makes 1,529 indirect job claims. The Governor’s Office censored the report how many jobs each employer claimed.

### Texas Energy Center Job Claims, Jan. 2011

TX Energy Center Member Companies	Full-Time Equivalents
Schlumberger Technology Corp.	
Research Partners. to Secure Energy for Am.	
Mechanical Equipment Co.	
Sunoco Logistics Partners, LP	
*WOW Energy	
First Genesis	
Gas Technology Institute	
Bizplace	
Rolls Royce Energy Systems	
CenterPoint Energy	
EMS Pipeline Services, Inc.	
<b>TOTAL</b>	<b>1,529</b>

\* Did not “submit a qualified job number.”

In one of its largest grants, TEF awarded \$50 million in 2005 to Houston-based Lexicon Genetics (now Lexicon Pharmaceuticals) and Texas A&M University to establish the **Texas Institute for Genomic Medicine**. Its mission was to clone 350,000 mouse stem cells for research. The *Houston Chronicle* reported that three families that contributed \$325,000 to Governor Perry’s campaign controlled 17 percent of Lexicon’s stock. The Institute pledged to create 5,000 jobs by 2015 (A&M was responsible for 3,384 jobs and Lexicon for 1,616), including indirect jobs for which the Institute is “significantly responsible.” After Lexicon defaulted on early job targets, a 2009 amendment shifted all job requirements to A&M until 2012. In generating indirect job claims for this project, the Texas Workforce Commission credits the Institute for creating any new Texas job that falls into the 24 diverse industries that make up the so-called “Governor’s Biotech Cluster.” Using this method in 2009, when its target was 581 jobs, A&M claimed credit for producing “1,921 actual jobs.” Yet A&M’s TEF contract contains a multiplier that allows it to claim additional job credits if the average compensation of the new workers exceeds \$60,000 a year. In 2009 this inflated A&M’s claim of 1,921 indirect jobs into credit for having created 2,727 jobs. Using this witchcraft, A&M amassed an unrivalled 11,893 surplus job credits by 2010. In 2010 A&M’s TEF requirement increased to a target of 894 new jobs. It was a rough year for the “Governor’s Biotech Cluster,” which saw a loss of 1,653 jobs statewide (A&M claims that its multiplier reduces this loss to negative 906 jobs). Yet A&M’s compliance report argues that it only needs to cash in 313 of its surplus job credits.<sup>13</sup> The Institute’s director recently told the *Wall Street Journal* that he is one of 10 people actually employed at the Institute.<sup>14</sup> That is a credible figure.

Irving-based **Vought Aircraft** (now Triumph Aerostructures) makes plane parts. It landed \$35 million from TEF in 2004 to create 3,000 jobs and maintain a minimum of 6,000 jobs. The Governor's Office tossed Vought a parachute in 2009, when the company reported creating just 864 of the 3,000 promised new jobs. The amendment contains a multiplier that gives Vought extra job credits if the average compensation paid to new employees exceeds \$53,000 per year. Vought reported that it had created 551 new jobs and employed a total of 3,549 people by the end of 2010, falling far short of its promises. Using its multiplier, Vought inflated the 551 actual new jobs into credit for creating 1,305 jobs. This puffery still fell short of its promised 3,000 new jobs. The Governor's Office amended Vought's contract again in 2010 to reduce the total jobs the company had to maintain from 6,000 to 5,958.

### **Weak Project**

TEF awarded \$1.125 million in 2009 to Pepsico's **Frito-Lay** to create 125 jobs by 2010 and maintain them through 2015. This taxpayer grant covers new jobs associated with the "launching of the One-Up program" at Frito's Plano headquarters. "One-up" seems to be management jargon related to computer "SAP conversion" projects. Frito's website says CFO George Legge "led One Up, PepsiCo's enterprise system initiative to harmonize business practices to leverage scale, build flexibility and support growth." Management speak aside, the Frito *bandito* seems to have one-upped TEF by getting it to pay it for jobs that predated Frito's TEF contract. Frito's contract directs the company to create the first 45 new jobs between February and December of 2009. Most of that period occurs *before* Frito signed its December 1, 2009 TEF contract. This timing imposed great hardships on TEF lawyers, who had to cover all the contortionist verb tenses that the permissive contract allows. One example of this tortured prose reads, "Frito-Lay commits to relocating (or has relocated) (or causing its affiliates to relocate or has caused its affiliates to relocate) certain One-Up employees from outside the State of Texas." Frito reported 140 "new" jobs in 2010, exceeding its target of 125.



## Appendices

### Recently Terminated Contracts

TPJ's previous report, [Phantom Jobs](#), summarizes many terminated TEF projects. This section summarizes terminations that the Governor's Office recently made public.

#### Albany Engineered Composites

TEF awarded \$1 million in 2008 to New York-based Albany Engineered Composites, which makes fabrics used by the paper and aerospace industries. Albany pledged to expand its Boerne plant and create 337 jobs by 2014. Citing "the most severe recession in decades," Albany fell short its first year. The fraying fabric maker shut its Eclipse Jet unit that was to generate 40 percent of the promised jobs. As Albany's payroll dropped below what it was when the company signed its TEF deal, a 2009 amendment slashed its job commitments from 337 to 137 jobs. The parties terminated this failed deal in April 2011, with TEF directing Albany to repay two-thirds of the \$300,000 that the state dispersed.

#### Alloy Polymers

Owned by Kamini and Subhash Pahuja,<sup>15</sup> Virginia-based Alloy Polymers had no Texas employees before it bought an Amapcet Corp. chemical facility in Crockett in May 2006. Five months later TEF awarded Alloy \$200,000 to create 52 new jobs there by the end of 2009, including 20 by 2007 and 35 in 2008. Alloy then claimed that it "created" 32 apparently preexisting jobs through its 2006 acquisition of the Amapcet plant. It reported that it created a total of eight additional jobs in 2006 and 2007, resulting in a claim of 40 "new" jobs by the end of 2007. A year later, Alloy reported that its Crockett employment had dropped to 35 people—for a total increase of just three jobs beyond what had existed at the Amapcet plant. In response to TPJ inquiries, the Governor's Office said on July 9, 2010 that Alloy had failed to submit its 2009 compliance report. The parties terminated Alloy's TEF contract that same day, with TEF directing Alloy to repay \$43,816 of the \$100,000 that the state had disbursed.

#### FlightSafety International

Warren Buffett's Berkshire Hathaway acquired a pilot-training company in 1996. TEF awarded FlightSafety International \$720,000 in April 2009 to create 125 new jobs in Irving by 2012. Instead, the company reported a net loss of four Texas jobs in the deal's first year. The parties terminated the deal in 2011, with TEF never reporting any disbursement of state funds for this project.

#### Latex Foam International

Connecticut-based Latex Foam makes bedding materials. TEF awarded it \$1.06 million in October 2010 to build a plant in Wichita Falls. It promised to create 190 jobs by 2017 (and maintain them through 2021), including hiring 30 new employees in 2010. Latex's first compliance report in early 2011 said it "added 53 new positions."<sup>16</sup> In a revised June report, Latex reported that 25 of the 53 new workers that it first reported were temporary employees. Latex and TEF argued over whether temp workers apply to Latex's job target. It is unclear if Latex also counted 20 preexisting jobs as "new" ones or had some other reporting problem. The Governor's Office credited Latex with creating a grand total of one new job in 2010. The bedding company complained to TEF that \$35,000 a year won't coax enough Texans to get out of bed to make Latex bed products. "Unfortunately, we have found some employees we hire simply do not show up for work," Latex CEO Dave Fisher wrote. Fisher reported that this is a greater problem in Texas than "in other States we operate in." The Governor's Office reported in 2011 that Latex's TEF contract was in the "process of termination."

### McLane Advanced Technologies

TEF awarded \$1 million in 2009 to a unit of the McLane Group, a grocery wholesale company, to expand its conference, data and software facilities in Temple. Drayton McLane, Jr. owns the company and the Houston Astros. He and his company's MAC PAC have given \$261,126 to Governor Perry's campaigns (and more than \$100,000 to the Perry-led Republican Governors Association). McLane Group promised TEF it would create 225 jobs by 2011 and maintain them through 2016. Instead the parties terminated the deal in February 2011, with TEF directing the company to repay the \$500,000 it had received plus 3.5 percent interest.

### Nationwide Mutual Insurance

"In a coordinated e-mail and press conference announcement," KSAT television reported in 2009, "San Antonio Mayor Julian Castro, Bexar County Commissioner Sergio Rodriguez and Texas Governor Rick Perry announced Thursday that Nationwide Mutual Insurance Company is expanding its operations in Texas."<sup>17</sup> The convened journalists reported that the deal—sealed with \$2.5 million in TEF funding—would create 838 jobs.<sup>18</sup> No politicians called a press conference 15 months later, however, when Governor Perry's office quietly terminated the contract. The January 2011 termination contract directs Nationwide to repay the \$1.2 million disbursed and 3.5 percent interest.

### Drayton McLane & MAC PAC Contributions to Gov. Perry

Date	Amount
7/19/2001	\$25,000
2/19/2002	\$3,500
6/10/2002	\$21,500
10/31/2002	\$4,000
11/4/2002	\$3,126
6/30/2003	\$25,000
9/20/2004	\$2,500
12/11/2004	\$25,000
11/16/2005	\$1,000
2/22/2006	\$5,000
6/30/2006	\$25,000
12/8/2006	\$15,000
10/15/2007	\$25,000
3/3/2008	\$25,000
11/2/2009	TEF Deal
7/14/2010	\$50,000
7/29/2010	\$500
10/26/2010	\$5,000
2/28/2011	TEF Terminated
<b>TOTAL</b>	<b>\$261,126</b>

## Recently Amended Contracts

TPJ's [Phantom Jobs](#) report discusses many TEF Amendments. This section summarizes amendments that the Governor's Office recently made public.<sup>19</sup>

### Health Management Systems (Performing)

New York's Health Management Systems, a unit of HMS Holdings Corp., provides cost-containment services to public and private health plans. TEF awarded HMS \$1.6 million in 2010 to expand its Irving office. HMS promised to create 350 new jobs by 2014 and maintain them through 2018. HMS exceeded its 2010 target of 20 jobs, reporting that it created 70 new jobs. A September 2011 amendment made retroactive to the end of 2010 suggests blocks HMS from counting preexisting jobs at its HMS Business Services subsidiary as "new" jobs. The original agreement made no mention of this subsidiary.

### Huntsman

TEF awarded Utah-based Huntsman Corp. \$2.75 million in 2005. Huntsman pledged to invest \$226 million to expand its chemical facilities in Odessa and Port Neches and to build new administrative and research offices in the Woodlands. The deal promised to create 326 high-paying new jobs by the end of 2009 and retain them through 2015. Huntsman had a strong start, racking up a surplus of 116 extra jobs by the end of 2005. Then it began paring its payroll, reporting just 265 new jobs by the end of 2009, 61 jobs short of its target. Citing "the global economic recession," Huntsman asked the Governor's Office for "forbearance," seeking "a deferment of our 2009 job target requirement until regional, national and global economic conditions improve." A November amendment slashes Huntsman's obligations from 326 jobs to 285. The amendment also says that if Huntsman has trouble creating these jobs in the Woodlands then TEF will consider new jobs that the company creates elsewhere in the state. This chemical company was founded by the family of Perry presidential rival Jon Huntsman.

### KLN Steel Products

TEF awarded KLN Steel Products \$900,000 in mid 2008 to invest \$25 million in the expansion of a San Antonio office furniture plant. The deal promised to create 200 jobs by 2009 and maintain them through 2015. KLN's 2009 compliance report claims 301 full-time employees. It does not specify if these were "new employees" beyond the 200 workers that KLN reportedly employed when it signed its TEF contract. The Governor's Office reported that KLN's numbers cover its *total* workforce. This means that the company posted a net increase of 101 new employees, 99 short of its pledge. A November 2010 amendment is cagier. It says KLN "has created over 55 new jobs" since it signed its 2008 TEF agreement. The amendment slashes KLN's job requirement from 200 jobs to 156 and gives it four more years—until 2013—to hit the lower target. The original deal required KLN to deal to deliver 240 jobs by 2010. The amendment cuts the 2010 target to just 56 jobs.

### Rockwell Collins

Iowa-based Rockwell Collins makes electronic systems for the communications and aviation industries. TEF awarded the company almost \$1.7 million in late 2007 to expand its Richardson plant. The deal promised that by the end of 2009 Rockwell would add 334 new jobs to the 947 workers that the company already employed in Texas. A 2008 amendment lowered the baseline used to count "new" Rockwell employees from 947 to 932. Yet another amendment signed at the end of 2008 slashes Rockwell's total jobs target from 334 to 105 jobs.

**Santana Textiles**

TEF awarded \$1.65 million in 2008 to Brazil-based Santana Textiles for a new blue jeans plant in Edinburg that pledged to create 800 low-paying jobs there by 2014. This denim deal faded fast.<sup>20</sup> Santana repeatedly postponed breaking ground for project as it sought more incentives. It reported that the Edinburg Economic Development Corp. pledged to provide a \$5 million loan as Santana sought \$10 million from the Texas Product Development Fund and New Market Tax Credits. A 2010 amendment slashed Santana's job target that year from 359 jobs to just 13. It also gave Santana two more years (until 2016) to deliver its ultimate target of 800 jobs.

## Recent Contracts with 2010 Job Targets

TPJ's previous report, [Phantom Jobs](#), summarizes most TEF projects. This section summarizes recent TEF contracts that faced their first jobs targets in 2010.

### **Green Star Products (Non-Performing)**

TEF awarded \$350,000 to Green Star Products to open a new LED lighting plant in Boerne that pledged to create 118 new jobs by 2014 and maintain them through 2018. Green Star reported creating two of the 20 jobs it promised to deliver in 2010.

### **Lorimer/Natura World (Non-Performing)**

Canada-based Natura World, a unit of Lorimer, LLC, makes environmentally correct bedding. TEF awarded it \$1.5 million in 2010 to install an organic bedding factory in Wichita Falls. It promised to create 400 jobs by 2019 and retain them through 2020. It reported creating just 22 of the 75 jobs it promised to deliver in 2010.

### **Nationstar Mortgage (Non-Performing)**

TEF awarded \$560,000 in 2010 to Nationstar to create 400 new jobs in Lewisville, where it operates a mortgage-servicing call center. The company pledged to create 400 new jobs by 2011 and to retain them through 2013. It reported delivering just 87 of the 150 new jobs it had pledged for 2010.

### **Vendor Resource Management (Performing)**

California-based Vendor Resource Management is a unit of PCV Murcor, which provides real estate appraisal services. TEF awarded VRM \$750,000 in 2009 to open a new Carrollton office the promised to create 275 jobs by 2011 and retain them through 2017. It reported creating 153 new jobs in 2010, exceeding its 150-job target for 2010.

## Notes

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<sup>1</sup> "Gov. Perry's Shaky Defense of Texas Investment Funds," *Washington Post*, October 13, 2011.

<sup>2</sup> "54,600 New Texas Jobs? Not All Are Set in Place," *Austin American-Statesman*, October 14, 2011.

<sup>3</sup> The audited TEF project is Samsung. The indefensible job claims come from the five projects that this report classifies as "frauds." They are the Center for Advanced Biomedical Imaging, Sematech, Texas Energy Center, the Texas Institute for Genomic Medicine and Vought Aircraft.

<sup>4</sup> This leaves behind four completed TEF projects that faced no further job targets in 2010. They are Cabela's, Ineos, Sanderson Farms and Texas Instruments (with U.T. Dallas), which are discussed in TPJ's earlier "Phantom Jobs" report.

<sup>5</sup> The Health Management amendment bars that company from counting preexisting jobs at its HMS Business Services subsidiary as "new" TEF jobs. Martifer received a 4-month extension on its 2009 job target. Genomic Medicine's punted all Lexicon job targets until 2011. Vought got a multiplier that inflated 551 actual 2010 jobs into credit for 1,305 jobs. A second Vought amendment cuts the total number of jobs the company has to maintain from 6,000 to 5,958.

<sup>6</sup> The Governor's Office left this field blank for just four still-existing projects that faced 2010 job targets. They are: Medtronic, Samsung, the Texas Energy Center and the Texas Institute for Genomic Medicine.

<sup>7</sup> "Is Sematech Slipping Away to New York?" *Austin American-Statesman*, May 23, 2010.

<sup>8</sup> "Where Are Sematech Jobs?" *Austin American-Statesman*, May 25, 2010.

<sup>9</sup> Governor Perry's Office of Federal-State Relations also paid Maloney to lobby from 2002 through 2006.

<sup>10</sup> See "Texas Energy Center's Ambitions Proved Too Big for its Pocketbook," *Fort Bend Now*, January 10, 2007. It is part of a four-segment series on the Texas Energy Center. See also "How Rick Perry Aggressively Pursued Federal Aid He Now Decries," *Time Magazine*, August 17, 2011.

<sup>11</sup> "Texas Energy Center Gets Credit, But Who Landed the Jobs?" *Fort Bend Now*, January 11, 2007.

<sup>12</sup> "What's Driving Rick Perry?" *The New Republic*, October 20, 2011.

<sup>13</sup> The 313 number appears to refer to the amount that the Institute's job target increased that year.

<sup>14</sup> "Behind Perry's Jobs Success, Numbers Draw New Scrutiny," *Wall Street Journal*, October 11, 2011.

<sup>15</sup> Subhash Pahuja died in 2007.

<sup>16</sup> Latex reported an average annual compensation of \$33,648, which fell short of the \$35,000 that it had promised.

<sup>17</sup> "SA Gains Over 800 Insurance Industry Jobs," *KSAT.com*, October 29, 2009.

<sup>18</sup> "Nationwide Bringing Jobs to San Antonio," *Austin American-Statesman*, October 30, 2009. "Hundreds of New Jobs Coming to S.A.," *La Prensa*, November 1, 2009.

<sup>19</sup> "Perry's Jobs Plan Hits Setbacks," *San Angelo Standard-Times*, October 27, 2011.

<sup>20</sup> "Delayed Edinburg Plant Still On, City Leaders Say," *The Monitor*, April 5, 2010.